Decision 06-07-026 July 20, 2006

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of Pacific Gas and Electric Company to Address its Current Overcollection in its Energy Resource Recovery Account (ERRA). (U 39 E)	Application 06-05-017 (Filed May 10, 2006; Supplemented June 12, 2006)

OPINION AUTHORIZING PACIFIC GAS AND ELECTRIC COMPANY TO MAINTAIN ITS CURRENTLY AUTHORIZED ENERGY RESOURCE RECOVERY ACCOUNT RATES

1. Summary

This decision authorizes Pacific Gas and Electric Company (PG&E) to maintain its currently authorized Energy Resource Recovery Account (ERRA) rates until January 1, 2007, at which time its ERRA balance overcollection shall be amortized against its 2007 ERRA rates being addressed in its 2007 ERRA forecast Application 06-06-001.

2. Background

Section 454.5(d)(3) of the Public Utilities Code provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.[1] It also provides for recorded revenues and costs

[1] All statutory references are to the Public Utilities Code unless otherwise stated.

incurred under such a plan to be tracked in a power procurement balancing account. Until January 1, 2006, the balance of that account is not to exceed five percent (threshold point) of the electrical utility's actual recorded generation revenues for the prior calendar year excluding revenues collected for the Department of Water Resources (DWR).

Pursuant to § 454.5(d)(3), the ERRA was established to track the differences between fuel and purchased power revenue requirements and actual recorded costs of an approved procurement plan.[2] That decision also established a trigger mechanism to ensure that a threshold point of five percent would not be reached. The trigger mechanism requires any electrical corporation whose ERRA balance reaches four percent of its prior year's recorded generation revenues, excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date. Any such expedited application is to include (1) a projected account balance in 60 days or more from the date of filing depending on when the balance will reach the five percent threshold and (2) propose an amortization period for the five percent of not less than 90 days. Although the statutory trigger requirement expired on January 1, 2006, it has been extended to the term of the long-term contracts, or ten years, whichever is longer.[3]

Consistent with the requirements of § 454.4(d) (3) and D.04-12-048, PG&E filed its trigger application. At March 31, 2006, PG&E had a $165.5 million ERRA balance overcollection, exceeding both its $131.8 million trigger and

[2] D.02-10-062 (2002), *mimeo.*, p. 77.

[3] D.04-12-048 (2004), *mimeo.*, p. 103.

$164.8 million threshold points.[4] This overcollection equated to 5.02% of its prior year's recorded generation revenues excluding revenues collected for the DWR.[5] By the end of April 2006, that overcollection increased further to $186.2 million, or 5.65% of its prior year's recorded generation revenues. PG&E forecasted its ERRA balance overcollection to increase further during the remainder of 2006 and to exceed 6.5% by the end of December 2006.

Subsequently, on June 12, 2006 PG&E supplemented its application to provide an update of its actual ERRA balance as of May 31, 2006 and a current forecast of its ERRA balance for the remainder of 2006. That update showed that PG&E had experienced a $60.3 million dollar reduction in its ERRA balance overcollection to $125.9 million at the end of May 2006 from $186.2 million at the end of April of 2006. Its actual overcollection percentage was reduced to 3.82% from 5.65% and below its trigger and threshold points. Based on its updated ERRA balance, PG&E forecasts that its ERRA balance will remain below its trigger and threshold points for the remainder of 2006 and be further reduced to 2.42% by December 31, 2006.

3. Requested Authority

PG&E proposes no change in its ERRA rates. However, PG&E does propose to amortize its 2006 year-end ERRA balance beginning January 1, 2007

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[4] Trigger and threshold points are calculated by multiplying the prior year's generation revenue excluding DWR revenue by four percent and five percent, respectively.

[5] March 31, 2006 overcollected balance of $165.5 million divided by prior year recorded generation revenue of $3,295.6 million, as identified in Advice Letter 2807-E, dated March 29, 2006, equals 5.02%.

against its 2007 ERRA rates being addressed in its 2007 ERRA Forecast Application 06-06-001, dated June 1, 2006.

4. Discussion

At the time PG&E filed this trigger application, its ERRA balance exceeded, and was expected to continue exceeding, its 4.0% trigger point as well as its 5.0% threshold point through the remainder of 2006.

PG&E provided two reasons why it had and was expected to continue this year with an ERRA balance overcollection beyond its 4% trigger point. The first reason was a decline in gas and electric prices from the post-Hurricane Katrina levels used to set its 2006 ERRA rates. The second reason was the availability of above-average hydroelectric generation in 2006.

PG&E proposed to mitigate rate changes due to its substantial actual and 2006 year-end forecasted ERRA balance overcollection by deferring the amortization of its ERRA balance until January 1, 2007. The intent of this deferral was to help offset a substantial increase in its 2007 ERRA rates due its forecast for an additional $360 million electric procurement costs in 2007. PG&E attributed a significant portion of that increase to its transition of over 200 Qualifying Facilities to a short-run avoided cost pricing methodology from five-year energy prices.

PG&E's supplemental filing, showing a reduction in its actual and forecasted year-end 2006 ERRA balance overcollection to 3.82% and 2.42%, respectively, and well below its trigger and threshold points, supports PG&E's request to not change its ERRA rates until January 1, 2007. At this time, no adjustment is needed to its currently approved ERRA rates.

5. Category and Need for Hearing

In Resolution ALJ 176-3173, dated May 25, 2006, the Commission preliminarily categorized this proceeding as ratesetting, and preliminarily determined that hearings were not necessary. This matter appeared on the Commission's May 19, 2006 Daily Calendar. There is no filed opposition to this application. Based on the record, we affirm that this is a ratesetting proceeding, and that hearings are not necessary.

6. Waiver of Comment Period

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Pub. Util. Code § 311(g)(2), the otherwise applicable 30-day period for public review and comment is being waived.

7. Assignment of Proceeding

Michael R. Peevey is the Assigned Commissioner and Michael J. Galvin is the assigned Administrative Law Judge in this proceeding.

Findings of Fact

1. Section 454.5(d)(3) provides for the timely recovery of procurement costs incurred by electric utilities that are under an approved procurement plan.

2. The balance in the ERRA balancing account is not to exceed five percent of the electric utility's actual recorded generation revenues for the prior calendar year excluding revenues collected for the DWR.

3. A trigger mechanism was established that requires any electrical corporation whose ERRA balance reaches four percent of its prior year's recorded generation revenues, excluding revenues collected for the DWR, to file an expedited application for approval to adjust its rates in 60 days from the filing date.

4. PG&E had an ERRA balance overcollection of 5.02% and 5.65% as of the end of April and May of 2006, respectively, and expected to exceed its trigger and threshold points throughout the remainder of 2006.

5. PG&E supplemented its trigger application on June 12, 2006 with updated information. The supplement showed that PG&E's ERRA balance overcollection decreased to 3.82% at May 31, 2006 and is forecasted to decrease further to 2.42% by December 31, 2006.

6. There is no opposition to this application.

Conclusion of Law

The public interest would be best served by allowing PG&E to maintain its current ERRA rates until January 1, 2007, at which time its ERRA balance overcollection should be used to mitigate PG&E's increased generation costs. Accordingly, PG&E's rate proposal should be adopted.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company's proposal to not adjust generation rates in response to this Energy Resource Balancing Account (ERRA) trigger application is adopted. Its ERRA balance shall be amortized against its 2007 ERRA rates being addressed in Application 06-06-001.

2. Application 06-05-017 is closed.

This order is effective today.

Dated July 20, 2006, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN

DIAN M. GRUENEICH
JOHN A. BOHN
RACHELLE B. CHONG
Commissioners